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Navigating the SFC's Operational Rulebook on Listed Closed-Ended Alternative Asset Funds

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On June 30, 2026, the Securities and Futures Commission (SFC) published Frequently Asked Questions on Listed Closed-ended Alternative Asset Funds (FAQs), accompanied by the Takeovers Executive's Practice Note 28 (PN 28). Together, these instruments signal a shift of regulatory focus from the gating criteria of the February 2025 Circular – which established the baseline eligibility framework for listed closed-ended alternative asset funds (LAFs) – to the day-to-day operational requirements that govern LAFs after listing. For alternative asset managers, accessing Hong Kong's retail capital markets via an LAF entails public company governance obligations, robust investor protection safeguards and exit rights enforceable by investors.

This alert provides a practical operational roadmap for alternative asset managers, cross-referencing the Code on Unit Trusts and Mutual Funds (UT Code), the Main Board Listing Rules (MBLRs), the Codes on Takeovers and Mergers and Share Buy-backs (Codes) and the Overarching Principles (OAP).

1. Structural thresholds

1.1 Segregation of liquidity profiles

The SFC enforces a strict alignment of liquidity profiles within umbrella entities. To prevent systemic cross-contamination, the SFC prohibits comingling LAFs with open-ended unlisted funds or conventional exchange-traded funds (ETFs) under a single umbrella. Open-ended structures require liquid portfolios to meet periodic redemptions, whereas LAFs warehouse private, illiquid alternative assets.

However, multi-strategy managers can establish multiple LAFs under a single, dedicated LAF umbrella, provided all sub-funds are closed-ended (e.g., separate sub-funds for private equity buyouts, private credit and infrastructure debt). This provides commercial economies of scale by consolidating establishment costs and regulatory filings on the Stock Exchange of Hong Kong (SEHK), subject to a case-by-case demonstration of robust asset and liability ring-fencing.

1.2 Master-feeder integration

International asset managers can deploy master-feeder architectures to channel Asian retail and institutional capital into established offshore master funds (e.g., in the Cayman Islands, Delaware or Luxembourg), enabling fund managers to list a Hong Kong feeder into an existing flagship strategy.

- The master fund must be acceptable to the SFC. Principles and rules under the UT Code and the Circular on streamlined requirements for eligible exchange-traded funds adopting a master-feeder structure will generally be applicable to the feeder fund structure.
- The listed Hong Kong feeder fund must mathematically align its investment restrictions, borrowing limits and valuation methodologies with the SFC retail product standards.
- Managers must ensure feeder investors receive proportionate voting and economic rights equivalent to direct master fund investors, mitigating structural subordination.

1.3 Capital deployment window

Unlike institutional "blind pools" with multi-year capital calls, LAFs raise capital upfront via an initial public offering (IPO). To mitigate early-stage uninvested capital drag, the SFC permits an operational ramp-up period:

- The investment period to build out the portfolio must generally not exceed one year from the IPO.

- Uninvested capital during this 12-month window may be held in cash, cash equivalents or highly liquid money market instruments.
- Sponsors must explicitly disclose the deployment timeline and interim cash-management strategy in offering documents (pre-listing assets must be disclosed as well), balancing rapid deployment against their fiduciary duty of rigorous due diligence under OAP General Principle 6 (diligence).

2. The governance mandate

Because LAFs are listed and available to retail investors, the SFC mandates a governance architecture that mirrors Chapter 3 of the MBLRs. These provisions must be hardwired into the LAF's constitutive documents (trust deed, articles of incorporation or limited partnership agreement).

2.1 Board composition and independent oversight

The SFC requires independent oversight to police subjective valuations of illiquid assets and connected transactions. Constitutive documents must stipulate that at least one-third of the board (with an absolute minimum of three) are independent nonexecutive directors (INEDs). The structural application depends on the legal form:

- **Corporate LAFs:** The requirement applies directly at the fund board level.
- **Noncorporate LAFs (e.g., unit trusts):** The requirement is pushed upward to the board of the management company. This requires global managers to reconstitute the boards of their private Hong Kong management subsidiaries to include at least three INEDs.
- **Audit committee:** An audit committee matching MBLRs standards must be established at the fund level (corporate) or management company level (unit trust) to scrutinize financial reporting, risk management and Level 3 asset valuations.

2.2 Enhanced unitholder rights

Departing from manager-friendly offshore private equity terms, the FAQs empower retail unitholders by enhancing minority control:

- **Requisition of meetings:** Minority holders with a maximum threshold of 10% of voting rights can convene an extraordinary general meeting (EGM) and add resolutions.
- **Removal of management company:** Can be achieved via an ordinary resolution. Crucially, the manager and its associates can vote their own units and count toward the quorum, allowing sponsors with significant co-investment stakes to defend against hostile removals.
- **Replacement manager and auditor:** Appointing a replacement manager requires SFC's prior approval and an ordinary unitholder resolution. Removing an auditor also requires an ordinary resolution, preventing managers from unilaterally dismissing auditors over valuation disputes.
- **Proxy mechanics:** Constitutive documents must expressly entitle the Hong Kong Securities Clearing Company to appoint proxies, ensuring beneficial owners holding units through the Central Clearing and Settlement System can vote.

2.3 Contractual replication of SFO Part XV disclosures

To maintain market transparency regarding concentrated ownership, LAFs must replicate the substantial shareholder disclosure regime. For corporate LAFs, Part XV of the Securities and Futures Ordinance (SFO) applies statutorily. For noncorporate unit trusts, the trust deed must contractually replicate Part XV, forcing unitholders crossing the 5% ownership threshold to notify the manager and the SEHK. This identifies potential concert parties and alerts the market to hostile takeover threats.

3. Takeovers, mergers and application of Practice Note 28

To prevent regulatory arbitrage stemming from the fact that unit trusts and partnerships fall outside the strict

statutory definition of a “company” under the Codes, the SFC mandates that constitutive documents for all LAFs must explicitly bind the fund, its managers and its investors to the Codes.

3.1 The REIT analogy under PN 28

PN 28 establishes that because LAFs share governance and yield-focused profiles with real estate investment trusts (REITs), the Takeovers Executive will treat them equivalently:

- **The 30% mandatory general offer (MGO) trigger:** If an investor or concert party accumulates 30% or more of an LAF’s voting rights, they must launch a mandatory general offer to all unitholders at the highest price paid in the preceding six months.
- **Concert party aggregation:** The Takeovers Executive will scrutinize relationships between parallel funds managed by the same sponsor to determine if their holdings must be aggregated against the 30% threshold.
- **Frustrating actions:** Under Rule 4 of the Codes, once a bona fide offer is communicated, the management company is strictly prohibited from taking frustrating actions (e.g., issuing units or selling material assets) without unitholder approval.

This framework protects retail investors from creeping takeovers while restricting activist hedge funds from aggressively buying out discounts to net asset value (NAV) without triggering a public offer.

4. Share buyback mechanics

Closed-ended alternative funds routinely trade at a discount to NAV due to the illiquidity premium of their underlying assets. Share buybacks are indispensable tools to support secondary market prices, and the FAQs integrate the UT Code requirements with MBLRs Rule 10.06.

4.1 On-market versus off-market execution

- **On-market execution:** Independent unitholders may grant the management company a specific approval or general mandate by ordinary resolution, permitting on-market buybacks up to a cap of 10% of total issued units/shares (excluding treasury shares) per financial year, enabling tactical interventions when the NAV discount widens.
- **Off-market execution:** These require specific unitholder approval by independent holders. Where the buyback targets specific holder(s), approval must be by extraordinary resolution; where the buyback is structured as a general offer to all holders, approval may be by ordinary resolution. Both mechanisms mitigate the risk of related-party bailouts.

4.2 The dual-cap pricing mechanism

To safeguard fund assets and protect nonselling investors, repurchases under MBLRs 10.06 are bound by a strict dual-cap pricing mechanism. The purchase price cannot exceed the lower of:

1. A 5% premium over the average closing price of the units for the five preceding trading days on the SEHK.
2. The most recently published NAV per unit.

4.3 Pricing limits and manager duties

If an LAF trades at a 30% discount to NAV, the 5% premium cap means the manager executes the buyback at a deep discount to actual asset value. Buybacks at such prices are generally expected to be accretive to the NAV of remaining long-term holders.

Managers must execute a rigorous fiduciary assessment prior to any buyback, ensuring that the intervention will not impair working capital, breach the 30% borrowing limit or force a fire sale of illiquid assets.

5. Pre-listing asset injections, valuations and connected transactions

Valuing private equity, private credit or unlisted infrastructure relies heavily on subjective, Level 3 discounted cash flow models. The FAQs impose precautions against valuation conflicts.

5.1 Pre-listing asset injections and due diligence

When a sponsor seeds an LAF with assets transferred from its proprietary balance sheet, the valuation must be transparently disclosed in the offering documents and included in the audited financial statements.

- If the listing agent assumes the dual role of sponsor, it is legally accountable for conducting independent due diligence on these underlying valuations.
- The management company must establish and document valuation policies and processes, which should be subject to the oversight of the audit committee of the LAF.

5.2 Connected transactions (MBLRs Chapter 14A)

Asset transactions between an LAF and its management company, investment delegates or connected persons trigger compliance with the UT Code and the Fund Manager Code of Conduct, including the arm's length and best interests requirements under 10.11 of the UT Code. Beyond OAP General Principle 4, which mandates that providers avoid conflicts of interest, the SFC may also, on a case-by-case basis with reference to MBLRs Chapter 14A, impose additional requirements tailored to the specific transaction. By way of illustration, such additional requirements may include:

- Formal review and approval by the INEDs.
- A detailed shareholder circular and/or an independent financial adviser's fairness opinion.
- Affirmative approval from independent unitholders at a general meeting; where applicable, the connected sponsor may be required to abstain from voting.

5.3 Co-investment and allocation policies

Where managers concurrently run parallel commingled funds or separately managed accounts, they must implement documented allocation measures. The LAF's offering documents must outline the precise methodology used to distribute limited capacity private market opportunities (e.g., pro rata based on uncalled capital). Strict adherence to this policy must be disclosed annually in the fund's audited report to ensure retail vehicles are not systematically disadvantaged in favor of institutional offshore flagship funds.

6. Investor exit rights and winding-up mechanics

A structural vulnerability of listed closed-ended funds is the NAV discount trap: When secondary market prices trade at a sustained and severe discount to underlying asset value, investors lacking a direct redemption mechanism are effectively locked in. The experience of an earlier-generation-listed, closed-ended vehicle in Hong Kong demonstrated this vulnerability. Where a fund held cross-border assets subject to foreign exchange controls or regulatory approval requirements, investor exit was further constrained because the orderly repatriation of underlying assets could not be guaranteed. The absence of a functioning market maker compounded the discount, and investors had no contractual mechanism to demand liquidation. The FAQs' exit provisions are a direct regulatory response to these observed pathologies.

6.1 Unitholder-initiated voluntary winding up

Q&A 5(k) of the FAQs introduces a mandatory exit mechanism that fundamentally recalibrates the balance of power between retail investors and fund managers. The constitutive documents of every LAF must empower unitholders to initiate a voluntary winding up, delisting and withdrawal of SFC authorization by extraordinary resolution at any time after one year from the listing date. This right to mandatory withdrawal cannot be contractually disapplied or deferred beyond the initial one-year lock-up period.

Practically, this provision represents a significant departure from the traditional general partner/limited partner dynamic. Unlike institutional private equity where capital is commonly locked for 10 to 12 years without unilateral right of exit, the LAF regime now empowers the investors: If a fund trades at an insurmountable NAV discount, underperforms post-listing or fails to deploy capital efficiently within the mandated window, retail investors hold

the right to initiate a voluntary winding up after 12 months, compelling a distribution of the underlying net assets.

6.2 Contested wind-downs and change of control

The legal right to wind up is distinct from the ability to execute a wind-down smoothly. Fund managers and investors should anticipate several friction points:

(a) Phased liquidation timelines. Where the underlying portfolio includes assets subject to regulatory approval prior to repatriation, for instance, assets held under QFII quotas that require tax clearance from PRC authorities, interim distributions may be made from offshore liquid assets while onshore positions remain suspended. This bifurcated realization process can span several months, during which investors receive only partial value and the fund remains in a protracted limited-operation phase.

(b) Regulatory waivers during wind-down. During liquidation, the SFC has demonstrated willingness to grant case-by-case operational relief from ongoing disclosure obligations that have become commercially impractical, including relief from continuous suspension announcements under UT Code 10.7, relief from updating offering circulars and publishing closing NAVs under UT Code 8.11, and permission to consolidate annual reporting with a final termination audit under UT Code 11.6. Managers should engage the SFC proactively at the earliest stage of a wind-down to identify and secure the appropriate waivers.

(c) Cost provisioning. Constitutive documents should require the manager to set aside an appropriate liquidation reserve from fund assets once a termination notice is issued. Failure to adequately discharge liquidation costs (including trustee fees, regulatory filings, tax advisers and asset disposal expenses) can erode the final distribution to unitholders. Where a voluntary winding-up resolution is requisitioned by a minority bloc or coincides with a change-of-control situation, the interaction with the Codes demands careful navigation. Once a bona fide offer for an LAF has been communicated, Rule 4 of the Codes prohibits frustrating actions by the management company without unitholder approval. In a contested wind-down scenario, managers must therefore assess whether any portfolio disposal, asset transfer or restructuring proposed during the liquidation period constitutes a frustrating action, and if so, whether independent unitholder consent is required before proceeding. The overlap between the UT Code wind-up mechanics and the Codes' offer period restrictions creates a compliance window that must be managed with precision and care.

7. Integration with MPF pension capital

The commercial scalability of the LAF regime is significantly bolstered by the Mandatory Provident Fund Schemes Authority's (MPFA) recent policy alignment. The MPFA issued guidance indicating a case-by-case willingness to approve "listed PE funds" for Mandatory Provident Fund (MPF) portfolios under Section 8(2)(c) of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation.

The MPFA will evaluate whether an LAF maintains acceptable volatility, charges reasonable fees and adheres to core MPF investment restrictions. Inclusion on the MPFA-approved list could provide LAFs with access to long-term retirement capital, subject to case-by-case approval, potentially broadening the investor base beyond the retail segment.

Strategic implications for alternative asset managers

The updated regime is another major step toward the maturation of Hong Kong's capital liquidity profile. The regulatory intent is unmistakable: to democratize access to private markets while imposing uncompromising, public market governance standards and robust exit mechanisms. For asset managers, the structural implications are profound.

The ability to launch multiple LAFs under a single, segregated umbrella presents an efficient capital-raising mechanism. However, the price of admission to the SEHK is full compliance with public company governance norms. Managers must prepare for board structures dominated by INEDs (even within private management subsidiaries running unit trusts), rigorous scrutiny of pre-listing asset valuations by listing agents, and the right of minority unitholders to requisition EGMs and, after one year from listing, to initiate a voluntary winding up.

Furthermore, navigating the Codes under PN 28 requires meticulous ownership monitoring. Sponsors must track

concert party aggregations relentlessly to avoid inadvertently triggering a 30% MGO, while simultaneously utilizing MBLRs 10.06 buyback mechanics to surgically manage NAV discounts.

Ultimately, the success of the LAF regime will depend on how effectively managers can deploy capital within the mandated one-year window, how transparently they navigate connected transactions and whether they can actively manage secondary market liquidity to avoid structural traps. The regulatory architecture provides a rigorous pathway for alternative fund formation in Asia. The onus now shifts to the market to execute within these boundaries.

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